FDIC

Federal Deposit Insurance Corporation

Washington, D.C. 20434 Office of Inspector General

DATE: September 30, 1997

TO: Michael J. Rubino
Associate Director
Acquisition Services Branch

FROM: Stephen M. Beard
Director, Office of Congressional Relations
and Evaluations

SUBJECT: *The Federal Deposit Insurance Corporation's Contract with ANSTEC, Inc., to Provide Local Area Network Administration and Technical Support Services* (EVAL-97-011)

This report presents the results of our review of allegations regarding the subject contract. On April 7, 1997, the Office of Inspector General (OIG) Hotline received an anonymous complaint. The complainant made several allegations concerning the award and administration of a Division of Information Resources Management (DIRM) contract with ANSTEC, Inc. (ANSTEC), and its subcontractor, QSS Group, Inc. (QSS). The complainant also made allegations concerning contractor qualifications, staffing, and billing. Our objectives were to:

- Analyze the original statement of work (SOW) and contract requirements to determine whether modifications to the contract were allowed by the SOW, reasonable, and executed in compliance with Federal Deposit Insurance Corporation (FDIC) contracting procedures,

- Determine whether ANSTEC properly staffed the contract and charged FDIC for prime and subcontract staff according to the terms of the contract, and

- Determine whether FDIC showed any favoritism toward ANSTEC in soliciting and awarding the contract.

The complainant also attributed the alleged favoritism toward ANSTEC to a previous working relationship which existed between the Director, DIRM, and officials from ANSTEC and QSS. We performed work in this area and provided a fact sheet to you and the Assistant Executive Secretary (Ethics) for use in determining whether these relationships had violated any FDIC policies or government regulations, and taking any action you deemed appropriate to assure the appearance of impartiality in soliciting and awarding DIRM contracts. We also referred the matter to our Office of Investigations for its consideration.

SUMMARY OF REVIEW

We determined that all of the modifications to the contract were within the scope of the original contract. Further, all of the contract modifications appeared reasonable, were reviewed and approved by the Acquisition Services Branch (ASB), and followed FDIC contracting procedures. Each modification was supported by a written justification from DIRM and appeared prudent when compared to staffing levels under prior local area network (LAN) administration contracts. While ANSTEC did establish new labor categories under the contract, these positions appeared appropriate given FDIC's transition to a more technically advanced network operating system.

The complainant also alleged that ANSTEC experienced difficulties staffing the contract with qualified employees. We confirmed the Contracting Officer issued a Cure Letter after identifying 28 contractor employees who did not meet contract certification requirements. ANSTEC responded to the Cure Letter and complied with its requirements within the cure period. However, we performed our own review of a sample of ANSTEC and QSS employee resumes and found almost one-half of the administrators, engineers, analysts, and consultants we reviewed did not meet contract qualifications. The employees in question included contractor staff assigned to the Senior Engineer and LAN Administrator positions. The contract Oversight Manager told us FDIC's network operating system had changed to Windows 95/Windows NT and the qualifications required by the contract were no longer relevant. The employees in question were assigned because they possessed Windows or comparable operating system experience. We understand the rationale behind the Oversight Manager's decision to approve the assignment of employees with Windows experience. Accordingly, we are not questioning costs associated with this issue. Notwithstanding, DIRM and ASB should have modified the contract to reflect this change in requirements.

We also reviewed several invoices and found that ANSTEC charged FDIC the appropriate contract rates. Moreover, we analyzed labor category costs under subsequent DIRM contracts for LAN administration and client services and found overall labor costs for proposed hours under QSS' LAN Administration Support contract would be less expensive than the costs for the same hours using the ANSTEC LAN Administration and Technical Support contract labor rates.

Further, the complainant alleged that DIRM has favored ANSTEC for this and other DIRM contracts; that DIRM allowed ANSTEC to underbid this contract; and that ANSTEC had a history of underbidding contracts. Nothing came to our attention to suggest this procurement was not conducted fairly or impartially. Moreover, we found no evidence to suggest ANSTEC underbid this contract. ANSTEC's bid was in the middle of a natural competitive range created by three of the four bids received. In fact, an ASB official told us ANSTEC recently overbid a separate DIRM solicitation which effectively eliminated ANSTEC from consideration.

Finally, the complainant alleged that QSS was hiring new employees for the ANSTEC contract and charging higher rates by using the General Services Administration (GSA) Federal Supply Schedule (FSS). Our review disclosed that FDIC did not use the FSS procurement method in awarding the ANSTEC LAN Administration and Technical Support contract, but FDIC did use the FSS process in other contracting arrangements with QSS. Accordingly, we reviewed FDIC's policies and procedures for utilizing the GSA FSS. The FSS offers government agencies a procurement vehicle with streamlined ordering procedures, shorter lead times, and reduced administrative costs. While we were not questioning FDIC's use of this program, we did recommend in a draft of this report that controls were needed to limit: (1) the amount of work that can be subcontracted to firms who are not approved by GSA, and (2) the size of contracts that may be solicited using the FSS process.

On September 19, 1997, you provided us the Corporation's written response to our draft report addressing the two recommendations. ASB management agreed with the recommendation to place limits on the amount of work subcontracted under FSS contracts to firms who are not approved by GSA. ASB managements disagreed with the recommendation to limit the size of contracts that may be solicited using the FSS process. Before receiving ASB's official response, we notified ASB management of our modified recommendation that, in lieu of limiting the size of contracts that may be solicited, ASB should institute procedures requiring technical evaluations of FSS contractors being solicited for high dollar or highly complex services contracts for FDIC. ASB has agreed to institute such a requirement in a revised policy memorandum.

ASB's response provided the requisites for a management decision on both recommendations. The Corporation's written response is included in its entirety as Appendix I of this report. Appendix II presents our assessment of management's responses to the recommendations and shows that we have a management decision for each of the two recommendations.

BACKGROUND

Under the subject contract, ANSTEC provided LAN administration and technical support services, including the installation, administration, and management of FDIC's microcomputer-based network and associated components. FDIC and ANSTEC signed the contract on January 16, 1996. The contract had one base year and two 1-year options. ANSTEC subcontracted approximately 27 percent of the work to QSS.

FDIC exercised a 5-month option and extended the contract through June 1997. In late May 1997, FDIC re-solicited the contract as two procurements--LAN Administration Support, and Client Services and Technical Support. ASB awarded these contracts in July 1997. Through June 1997, FDIC authorized almost $7.4 million in contract fees to ANSTEC, of which $2.1 million was passed through to QSS.

Prior to this contract, I-NET, Inc. provided LAN administration services to FDIC. ANSTEC and Advanced Management, Inc. (AMI) provided LAN Administration Services for the Resolution Trust Corporation (RTC). I-NET and AMI were both unsuccessful offerors for the LAN Administration and Technical Support contract.

SCOPE OF REVIEW

To perform our objectives, we reviewed general, contracting, and invoice files for the subject contract. We also reviewed e-mail correspondence associated with the contract. We interviewed ASB and DIRM program staff responsible for the award and administration of the contract, including the Contract Specialists and the Oversight Managers.

We reviewed the contract, SOW, and all modifications to the contract to determine whether the modifications followed FDIC procedures, were reasonable, and within the scope of the contract. We also compared ANSTEC rates and staffing levels to prior FDIC and RTC LAN administration contracts and to subsequent FDIC LAN and client services contracts.

We reviewed a sample of employee resumes to ensure contractor staff met contract qualifications. We also reviewed several ANSTEC invoices under the contract to ensure the contractor billed FDIC at the proper labor rates.

Finally, we reviewed the original solicitation and evaluation documents, including the technical evaluation panel (TEP) report and cost evaluation, to determine whether ANSTEC underbid the engagement and to determine whether FDIC fairly solicited and evaluated offeror proposals.

We conducted our review from May 12, 1997 through July 3, 1997 in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*.

RESULTS OF REVIEW

Modifications to the Contract Were Allowable, Reasonable, and in Compliance with Corporation Procedures

All of the modifications to the contract were within the scope of the contract and appeared reasonable. ASB and DIRM followed FDIC contracting procedures when preparing, reviewing, and approving the modifications. ASB modified the contract 17 times during its 18-month term. Two modifications transferred staff from ANSTEC's RTC contract to the subject contract to support the transition of RTC functions to FDIC. ASB also approved five new labor categories under the contract to provide more technically experienced staff to assist in the design and implementation of a Windows 95/Windows NT environment. Each modification was supported by a written justification. Generally, these modifications resulted in a staffing level that appeared moderate in comparison to staffing levels under prior FDIC and RTC LAN Administration contracts.

The modifications increased contractor staffing by 82 positions, from 59 to 141. One-half of this increase was attributed to the transition of RTC functions to FDIC. ANSTEC also had an existing LAN Administration contract with RTC. It appears, with FDIC's approval, ANSTEC shifted contract employees from the RTC contract to the FDIC LAN Administration and Technical Support contract. The labor rates under the FDIC ANSTEC contract were better than those under the RTC ANSTEC contract, so FDIC realized a savings by allowing the transfer of employees and terminating the RTC contract.

DIRM and ASB officials told us the staffing increases attributable to the RTC transition and new operating environment were expected. Most of the remaining staffing additions were made to support FDIC's migration from the Banyan VINES network to a Windows NT/Windows 95 operating environment. FDIC added 27 staff to support this effort.

ASB also authorized ANSTEC to establish several new labor categories: a Deputy Project Manager, Senior Engineer, Systems Analyst and Senior Level Consultant I and II positions (SLC I and II). In total, ANSTEC added 15 staff into these new positions. In all cases, the labor rates for the additional labor categories were higher than the original contract labor categories. We attempted to isolate the effect of these additional categories by subtracting what FDIC would have paid had ANSTEC billed each of the 15 additional positions at the highest original LAN administrator rate from the total labor charge for the new categories. We determined FDIC paid a net amount of $145,025 for the additional labor categories, or less than 2 percent of the total fees under the contract. Table 1 presents the results of this analysis.

Table 1: Schedule of Charges for Additional Labor Categories

Labor Category	Hourly Rate: FDIC LAN Contract	Number of Staff	Total Labor Charge for Category	Total Labor Charge at the Highest LAN Administrator Rate	Difference
Senior Engineer	$46	4	$193,412	$166,069	$27,343
Systems Analyst	41	7	148,136	137,110	11,026
SLC I	208	2	103,565	18,384	85,181
SLC II	125	1	22,875	6,769	16,106
Deputy Project Manager	48	1	20,812	15,443	5,369
Totals	N/A	15	$488,800	$343,775	$145,025

Source: ANSTEC Invoices

FDIC Circular 3700.16, *FDIC Acquisition Policy Manual*, effective November 15, 1996, tasks the Contracting Officer with the responsibility of: (1) determining whether a proposed modification is within the scope of the contract, and (2) consulting, as necessary, with the Legal Division in making its determination. Table 2 presents Oversight Manager and Contracting Officer responsibilities with respect to contract modifications.

Table 2: Responsibilities for the Contract Modification Process

Oversight Manager Responsibilities	Contracting Officer Responsibilities
Identify the requirement for a modification	Determine whether the modification is within scope of the contract.
Determine whether cost of the modification will exceed the expenditure ceiling.	With support of Oversight Manager, negotiate changes required by the modification.
Prepare a detailed, written explanation of the reason for and nature of the change or modification.	Execute the modification with the contractor.
Jointly with Contracting Officer, participate in any contractor negotiations associated with the modification.	

Source: Acquisition Policy Manual

The ASB Contracting Officer approved the first four modifications under Circular 3700.2, *FDIC Procurement Policy Manual*, effective September 30, 1993. Subpart VII-C of this manual states "...that any actions requiring the modification of a purchase order or contract (e.g., a change in price or cost, an alteration in a delivery schedule, or an appropriate revision of performance terms and conditions) can only be made by the Contracting Officer, and only in writing."

The remaining modifications were approved by the Contracting Officer under the *FDIC Acquisition Policy Manual*. Section 7.H.1.c. discusses modifications and states: "...the Oversight Manager shall forward a written request to the Contracting Officer, along with a completed Procurement Requisition form..., a description of the proposed change and rationale, and justification supporting the change. All contract modification documents shall be issued by the Contracting Officer."

Each of the modifications and additional labor categories appeared reasonable and within the scope of the contract. Further, ASB reviewed, approved, and executed each modification. ASB also referred one modification request to the Legal Division for review. In most cases, we identified evidence that DIRM had prepared some type of cost estimate for the modification, or, at a minimum, the modification indicated the action could be performed within the approved expenditure authority for the contract.

We also compared staffing levels under the LAN Administration contract to previous FDIC and RTC LAN contracts to determine whether contractor staffing was reasonable. When the LAN Administration contract was solicited in October 1995, FDIC and RTC had three LAN contracts with 175 total staff. These contracts expired or were consolidated over the first year of the ANSTEC contract, requiring ANSTEC to increase its staff to accommodate the additional workload. ANSTEC reached a high of 141 employees in April 1997. Although the Corporation has reduced its overall staffing level, DIRM officials told us requirements for LAN administration and technical support have either remained constant or increased with the Corporation's move towards more complex systems such as Windows 95/Windows NT. Accordingly, ANSTEC's staffing levels appear reasonable.

Finally, we compared labor rates under ANSTEC's RTC LAN contract and ANSTEC's FDIC LAN Administration and Technical Support contract. We found, for the most part, ANSTEC's FDIC rates were lower than those charged to RTC. Table 3 shows a comparison of rates from the two contracts.

Table 3: Comparison of ANSTEC Rates Under RTC and FDIC LAN Administration Contracts

RTC LAN Contract		FDIC LAN Contract	
Labor Category	**Hourly Rate**	**Labor Category**	**Hourly Rate**
Senior Engineer	$48.44	Senior Engineer	$45.97
Systems Analyst	$37.87	Systems Analyst	$40.82
Senior Technical Support Representative	$45.92	Senior Systems Administrator	$35.75
Network Technician	$40.83	Systems Administrator	$29.51
Technical Support Representative	$40.83	Associate Systems Administrator	$23.08
PC Specialist	$20.10	Senior PC Technician	$25.42
PC Specialist	$20.10	PC Technician	$23.08

Source: DIRM Oversight Manager

In conclusion, the modifications to this contract appeared allowable and reasonable. In all cases, DIRM and ASB followed existing FDIC contracting procedures to effect the modifications. ANSTEC increased staff to accommodate the transition of RTC functions to FDIC. Normally, contract staff were simply transferred from RTC contracts to the FDIC LAN Administration contract. ANSTEC did establish several new labor categories at rates higher than the original contract rates. However, these categories were approved by ASB and appeared reasonable. Further, the overall effect of these higher rate categories had a minimal impact on contract charges. Finally, our comparison of total LAN staffing under the contract to previous contracts at FDIC and RTC indicated that ANSTEC staffing levels were reasonable.

Some Contractor Employees Did Not Meet

Contract Qualification Requirements

Over the course of the contract, a number of ANSTEC and QSS employees did not possess the technical qualifications required by the contract. As a result of complaints from a DIRM official and a competing DIRM contractor, the Contracting Officer reviewed the qualifications of contractor staff, and issued a Cure Letter because a large percentage of the staff reviewed did not meet contract qualifications. ANSTEC responded quickly and obtained the proper training and certifications for the staff in question. However, we reviewed an additional sample of employees and found that almost one-half of the administrators, analysts, engineers, and consultants did not meet contract qualifications. The Oversight Manager told us FDIC's contractor employee qualification needs had changed with FDIC's conversion to Windows 95/Windows NT, and the existing contract qualification requirements were no longer relevant.

One of the Hotline complaints alleged a DIRM employee and one of the unsuccessful offerors complained about ANSTEC's performance and staff qualifications, and that FDIC gave ANSTEC a time frame to comply with the requirements of the contract. During the summer of 1996, a DIRM employee telephoned the Contracting Officer about ANSTEC's performance. The DIRM employee believed ANSTEC staff did not meet minimum qualifications required by the contract, and the employee reported witnessing recurring performance problems. The DIRM employee provided the Contracting Officer documentation from Banyan Systems, Inc. (Banyan), evidencing the lack of certifications for selected ANSTEC staff.

Eventually, the DIRM employee expressed his concerns during a DIRM staff meeting in the presence of DIRM management and representatives from other DIRM contractors. On July 16, 1996, an unsuccessful offeror for the LAN Administration and Technical Support contract, wrote a letter to the Contracting Officer discussing rumors that ANSTEC was unable to provide adequate support for the contract and that FDIC was considering adding additional labor categories to the contract to assist ANSTEC. The unsuccessful offeror requested that FDIC recompete the contract or re-evaluate offeror proposals and award the contract to an offeror who could provide the skilled staff necessary to support the contract requirements. The Contracting Officer responded with a letter, dated July 31, 1996, which discussed the Contracting Officer's authority to modify contracts and concluded that there was no basis for re-competing the contract.

Nevertheless, the Contracting Officer researched the allegations to determine whether contractor staff possessed the required qualifications. The SOW established three labor categories for LAN administrators and required the following certifications for each as shown in Table 4.

Table 4: Qualifications for LAN Administrator Labor Categories

Certification or Evidence of Completion of Training	Senior Systems Administrator	Systems Administrator	Associate Systems Administrator
Banyan Basic	✔	✔	✔
Advanced VINES Administration	✔	✔	✔
Problem Solving or Gateways	✔		

Source: Original contract SOW.

The Contracting Officer obtained and reviewed copies of resumes for a sample of ANSTEC staff to determine whether staff had the required certifications. The Contracting Officer reviewed 45 percent of the LAN Administrators assigned to the contract and found 82 percent of these employees did not possess the required qualifications. Table 5 presents a breakdown of the results of the Contracting Officer's review.

Table 5: Schedule Presenting Results of Contracting Officer's Review of LAN Administrator Qualifications

Results of Review	Senior Systems Administrator	Systems Administrator	Associate Systems Administrator	Total
Qualified	5	1	0	6
Not Qualified	6	16	6	28
Total	11	17	6	34
Staff Not Reviewed	23	13	5	41
Total LAN Administrators	34	30	11	75

Source: Contracting Officer's Summary Review Schedule.

Based on these results, the Contracting Officer issued a Cure Notice to ANSTEC, dated September 10, 1996, requiring ANSTEC to obtain certifications for employees within 30 days. ANSTEC responded that the former Oversight Manager had waived the certification and training requirements, but agreed to comply with the Cure Notice. According to the Contracting Officer, ANSTEC was very responsive, and provided the proper training and certifications for the employees in question within the cure period.

We asked the former Oversight Manager about his rationale for waiving the contract requirements. He explained that ANSTEC had hired some AMI and I-NET contractor employees who had worked under other FDIC and RTC contracts which had less stringent qualification requirements. The former Oversight Manager said because of RTC transition and FDIC LAN Administrator staffing reductions, neither DIRM nor ANSTEC had the time to have employees certified. DIRM had to decide between retaining experienced staff without adequate certifications and hiring new certified staff without RTC/FDIC experience. Further, he stated while the contractor employees in question did not possess the required certifications, they had more work experience than was required by the contract.

We performed our own review of a sample of ANSTEC and QSS resumes. Because the complainant made allegations about the qualifications of ANSTEC staff assigned to the new labor categories, we concentrated our review on ANSTEC and subcontractor staff assigned to the SLC, Senior Engineer and Systems Analyst positions. Further, because the complainant questioned the qualifications of ANSTEC staff transferred to QSS, we also reviewed all QSS resumes on file at FDIC. We did not review any ANSTEC or subcontractor staff included in the Contracting Officer's 1996 review.

Of the 44 employees we reviewed, 25 were LAN Administrators, Engineers, Analysts and Consultants. The remaining employees were PC Technicians. Of the 25 cases, 11 employee resumes did not evidence the labor category qualifications required in the SOW and subsequent modifications. Table 6 presents the results of our review of ANSTEC and QSS employee resumes.

Table 6: OIG Review of ANSTEC and QSS Resumes

Labor Category	Positions Reviewed	Qualified	Not Qualified
SLC I & II	4	4	0
Senior Engineer	4	2	2
Systems Analyst	7	7	0
Senior Systems Administrator	3	0	3
Systems Administrator	5	1	4
Associate Systems Administrator	2	0	2
Totals	25	14	11

Source: ANSTEC and QSS Resumes. Staffing as of April 15, 1997.

We requested that the current Oversight Manager provide any additional evidence of employee qualifications. The Oversight Manager researched each case and explained that since the issuance of the SOW and related modifications, FDIC's LAN structure had changed from a Banyan network operating system to a Windows 95/Windows NT network operating system. Accordingly, the contract required certifications and experience that were not relevant to FDIC's present LAN environment. Further, the Oversight Manager explained because Banyan is not a common network operating system and Windows 95/Windows NT is relatively new, it is very difficult to find employees with both skill sets.

The Oversight Manager provided explanations for each case in question. The Oversight Manager acknowledged none of the 11 employees met the contract qualification requirements, but added FDIC approved the assignment of most of the individuals to support the conversion to Windows 95/Windows NT. One of the Senior Engineers completed the required Banyan certification courses after being hired. FDIC waived the contract qualification requirements for the second Senior Engineer who had also worked on ANSTEC's RTC LAN contract. Further, one of the LAN Administrators was never assigned to the contract. The remaining LAN Administrators had varying years of experience in Windows or in Novell, a technologically comparable skill set. Further, several of the LAN Administrators held Novell certifications.

We understand the rationale behind the Oversight Manger's decision to approve the assignment of employees with Windows experience. Accordingly, we are not questioning any costs associated with this issue. However, DIRM and ASB should have discussed the inconsistencies between the original SOW and contract modifications and FDIC's current requirements and modified the contract to reflect the new labor category requirements.

Prime and Subcontractor Staff Charged at Contracted Rates

We reviewed selected invoices and concluded that ANSTEC generally charged FDIC for prime and subcontract staff according to the terms of the contract. We also compared ANSTEC labor rates and QSS staffing transfers to subsequent FDIC LAN administration and client services contracts. While we identified instances where QSS staff were transferred from the ANSTEC contract to a subsequent FDIC LAN contract, it appears overall labor rates under subsequent LAN and client services contracts were lower than rates under the ANSTEC contract.

The complainant alleged that QSS was hiring former ANSTEC employees using the GSA FSS schedule and billing FDIC at rates higher than what the contract allowed. Both the Contracting Specialist and the Oversight Manager told us the contract hourly rates applied to both prime and subcontractor staff and that ANSTEC and QSS were not charging FDIC more than what the contract allowed.

We reviewed several invoices to ensure individual employees' hourly rates agreed with contract labor rates and that geographic differential percentages were properly calculated. With a few minor exceptions, we concluded ANSTEC properly billed FDIC for contract staff and passed through charges for subcontract staff at rates authorized by the contract. We did not attempt to verify in all cases whether time charges agreed with time and attendance reports. We identified insignificant discrepancies in one invoice between summary time sheet information and invoice support documents. These discrepancies amounted to almost $1,500, or less than 0.3 percent of the invoice amount. The Oversight Manager agreed to request a refund of this amount from ANSTEC.

As discussed later in this report, in May 1997, ASB solicited bids for two new contracts under the GSA FSS process to replace the ANSTEC LAN Administration and Technical Support contract. QSS submitted bids for both contracts. In late July 1997, ASB awarded the LAN Administration Support contract to QSS, and the Client Services and Technical Support contract to AMI, another DIRM contractor. The labor categories proposed by QSS and AMI were similar to the labor categories under the ANSTEC contract. Further, five of the seven QSS labor rates and all of the five AMI labor rates were less expensive than the previous ANSTEC labor rates. We also determined the overall cost of the QSS LAN Administration Support contract would be less than the ANSTEC LAN Administration and Technical Support contract if the proposed overall contract hours were billed under the latter contract's labor rates.

We compared the staff proposed by QSS for these contracts to the QSS staff assigned to the ANSTEC contract to ensure QSS did not transfer staff to higher labor categories or bill staff at higher labor rates. As of April 15, 1997, QSS had 33 employees assigned to the ANSTEC contract. We identified five QSS staff assigned to the ANSTEC contract who also appeared in QSS proposals. In four of the five cases the labor rates for these staff were lower under the QSS contract than under the ANSTEC contract. In the remaining case, the labor rate was $.30 an hour higher under the QSS contract than under the ANSTEC contract.

Solicitation and Award of Contract Followed FDIC Procedures

FDIC followed Corporate contracting procedures in soliciting and evaluating proposals, and awarding the LAN Administration contract. FDIC provided all offerors the same information, and assembled a TEP which evaluated offeror proposals in accordance with FDIC contracting policies. Nothing came to our attention to suggest the procurement was not conducted fairly or equitably. Moreover, it did not appear ANSTEC intentionally underbid this contract.

FDIC issued the Solicitation on October 20, 1995. Four firms responded: AMI, ANSTEC, Comprehensive Technologies International, Inc. (CTI), and I-NET, Inc., the incumbent LAN Administration contractor. It appears all offerors were provided consistent information. The solicitation document included existing LAN contractor staff at FDIC and RTC. Offerors were required to provide hourly rates for six labor categories and geographic differential percentages for 16 locations. FDIC also issued a questions and answers document responding to offeror questions.

Bids were due November 21, 1995, and analyzed by a 5-member TEP. The TEP awarded both ANSTEC and I-NET, the incumbent, the highest technical scores of the four bidders. We were unable to review individual TEP member evaluation sheets because ASB did not retain them. However, based on our review of the final TEP report, the narrative summary for each offeror appeared balanced and fair.

ASB analyzed offeror cost proposals using a spreadsheet cost model. This model multiplied offeror labor rates and geographic differential percentages by DIRM workload assumptions to produce an annual cost estimate. One weakness in this process, cited by an ASB official, was the solicitation document did not provide the offerors with level of effort information. Such information allows the offeror to develop overhead rates and a reasonable profit margin. ASB believes providing offerors level of effort information helps FDIC obtain more competitive rates.

Based on the cost model, AMI bid the lowest rates, followed by ANSTEC, CTI and I-NET. AMI, ANSTEC and CTI's rates were close, creating a competitive range, with ANSTEC in the middle. FDIC calculated three technical to price ratios (Technical : Price = 70:30, 50:50, and 30:70). ANSTEC had the highest score under each ratio. Accordingly, FDIC awarded the contract to ANSTEC.

The complainant alleged ANSTEC intentionally underbid other offerors under this solicitation and that ANSTEC has a history of underbidding contracts. We saw nothing to suggest ANSTEC underbid this contract. AMI's bid was lower than ANSTEC's and ANSTEC's bid was in the middle of a natural competitive range created by three of the four bids. Also, ASB's Deputy Associate Director told us that ANSTEC had not historically underbid FDIC contracts. Further, the Contract Specialist told us a recent ANSTEC bid for a helpdesk support solicitation was the highest bid that FDIC received and outside of the competitive range. Accordingly, we did not review proposal information for other ANSTEC contracts.

At the time of award, the *FDIC Procurement Policy Manual* was in effect. Part VI of this manual discussed the solicitation, evaluation and award of contracts. This manual required the "...requesting and procurement office personnel to act with integrity, to maintain a businesslike, arm's-length relationship, and to avoid any appearance of a conflict of interest in dealing with competing vendors and offerors." The manual stated one of FDIC's basic objectives for any procurement is to maintain a level playing field for competing vendors to ensure that no vendor is provided information that would give that vendor a competitive advantage over the others. The manual also requires a division of responsibilities between the procurement and requesting office as well as the formation of a TEP to review offeror proposals.

It appeared FDIC followed these procedures for the procurement. Nothing came to our attention to suggest offerors were not treated fairly or equally. Further, as mentioned above, it did not appear that ANSTEC intentionally underbid the contract.

Additional Controls Are Needed Over FDIC's Use of GSA Federal Supply Schedules

Finally, the complainant alleged that QSS was hiring new employees for the ANSTEC contract and charging higher rates by using the GSA FSS. As discussed earlier, FDIC did not use the FSS process to award the ANSTEC LAN Administration and Technical Support contract, and we found ANSTEC billed contractor and subcontractor staff at the appropriate contract rates. However, FDIC did use the FSS process in other contracting arrangements with QSS. Accordingly, we reviewed FDIC's policies and procedures for utilizing the GSA FSS. FSS contracting uses approved GSA contractors and affords a quick procurement vehicle. We recommended in our draft report that ASB needed to develop controls to limit the percentage of effort that may be subcontracted to firms without GSA approval, and to limit the size of contracts that may be solicited using the FSS process.

The GSA schedules offer the benefits of streamlined ordering procedures, shorter lead times, and reduced administrative cost. GSA awards FSS contracts through a competitive process for use by other Federal agencies. Through these supply schedules, commercial firms provide goods and services at best-customer prices as a result of anticipated volume purchases. Once the FSS contract is awarded, Contracting Officers throughout the Federal Government may place orders against the contract for their requirements. On May 2, 1997, ASB issued Policy Memorandum 97-006 - *Procedures for Using Federal Supply Schedules and Conducting Market Research*. For contracts greater than $2,500, this policy requires the Contracting Officer to solicit at least three FSS contractors and to seek price reductions by obtaining written quotes from each FSS contractor. Contracting Officers may allow for a limited optional technical review, and the final award should be based on a best value determination. Awards may be processed within 45 calendar days as opposed to the 120 day processing time under FDIC's formal contracting process.

We believed that ASB needed to institute additional controls over the FSS process. First, ASB needed to develop limits on the amount of work that may be subcontracted under FSS procurements to contractors that have not received GSA approval. ASB awarded the Network Migration Services contract to Pulsar Data Systems, Inc., on January 30, 1997, under the GSA FSS process. Pulsar, an approved GSA contractor, subcontracted 97 percent of the contract work to QSS. At the time of award, QSS was not an approved GSA contractor. An ASB official told us ASB approved the subcontractor percentage because the FSS process was new, ASB had not developed any guidelines, and the contract was important to DIRM and needed to be awarded quickly.

The apparent intent of the GSA FSS program is to award FSS contracts to contractors that have been pre-approved by GSA. ASB's Assistant Director, Headquarters Operations Section, told us ASB does not plan to institute a ceiling on the amount of work that may be subcontracted. Instead, ASB will make subcontractor percentage determinations on a case-by-case basis. In our opinion, the ability to subcontract the preponderance of work to a contractor who has not been approved by GSA defeats the intent of this program.

Accordingly, we recommended ASB develop guidelines for the amount of work that may be subcontracted to contractors who have not been approved by GSA.

Second, we believed that ASB needed to place limits on the size of contracts for which the FSS process may be used. In late July 1997, FDIC awarded two new contracts: (1) the LAN Administration Support contract, and (2) the Client Services and Technical Support contract, using the FSS process. Each procurement had one base year and two 1-year options. DIRM estimated contract fees of $11.7 million for the LAN Administration Support contract and $15.3 million for the Client Services and Technical Support contract. ASB used the FSS process to award the contracts quickly. ASB initially experienced a poor response from offerors and later discovered that offerors had not had enough time to respond to the abbreviated solicitations. Further, the one bid ASB received was too high to be competitive. ASB eventually resolicited the contracts, allowed offerors a more reasonable time frame to submit proposals, and received responses from all offerors.

FDIC's formal contracting process includes controls that may have helped to ensure the success of the original solicitation. In our opinion, had ASB initially issued the solicitation to a greater number of offerors, provided offerors with an adequate response time period, and requested offeror questions, ASB may have had greater initial success with this solicitation. Table 7 presents a comparison of the solicitation process under FDIC formal contracting and the FSS process.

Table 7: Comparison of the Solicitation and Evaluation Process Under FDIC's Formal Contracting Process and the GSA FSS Process

FDIC Formal Contracting Process	GSA Federal Supply Schedule Process
Suggests soliciting five or more firms for formal contracting (6.B.3.d.).	Suggests comparing the pricing of at least three FSS contractors. Price comparisons should be made by obtaining written quotes from each contractor.
Solicitations with an estimated value of $100,000 or more subject to a Legal review (6.C.2).	No Legal review of solicitation.
Draft Request for Procurement subject to review by Office of Diversity and Economic Opportunity (ODEO) for awards estimated at $50,000 and greater (6.C.3).	No ODEO review of solicitation.
Offerors' Conference may be held (6.C.10).	No Offeror's Conference.
Offerors instructed to submit Questions and ASB will respond (6.C.11).	No Questions and Answers process.
Technical Evaluation required by at least a 3-member TEP (6.B.6.c.).	Contracting Officer may allow for a limited technical review (optional).
Award based on best value including price and technical requirements (6.A.6.b).	Award based on best value including price and technical requirements.
Time frame for procurement process -- 120 calendar days.	Time frame for procurement process -- 45 calendar days.

Source: Acquisition Policy Manual and Policy Memorandum 97-006

As shown, the FSS process does not include reviews by the Legal Division or ODEO, and a technical evaluation is optional. Moreover, the FSS process does not provide offerors with a formal opportunity to ask questions about the SOW. We believed such reviews, evaluations, and discussions are beneficial for contracts of this importance and complexity.

We did not question FDIC's use of the FSS process for routine, small to medium sized procurements. However, for large, complex, high dollar procurements such as those listed above, we questioned whether the FSS process is an appropriate contracting vehicle. Accordingly, we recommended ASB place limits on the dollar value of contracts that may be awarded using the FSS process.

CONCLUSIONS AND RECOMMENDATIONS

We determined all of the modifications to the contract were within the scope of the original contract. Each modification appeared reasonable, was reviewed by ASB, and followed FDIC procedures. While ANSTEC did establish new labor categories, these positions appeared appropriate given FDIC's transition to a more complex LAN environment.

During the course of the contract, ASB did identify a number of ANSTEC employees who did not meet contract qualifications, and ASB issued a Cure Letter as a result. While ANSTEC was responsive to the Cure Letter, we identified additional ANSTEC and QSS staff who did not meet contract qualification requirements. The Oversight Manager told us over the life of the contract, FDIC's network operating system had changed from Banyan to Windows 95/Windows NT. Accordingly, the contract required certifications and experience irrelevant to FDIC's present LAN environment. Nevertheless, DIRM should have coordinated with ASB and modified the contract to reflect the new labor category requirements.

Further, nothing came to our attention to suggest that FDIC did not conduct this procurement fairly and equitably, and it did not appear ANSTEC underbid the contract. During the course of our evaluation, we also reviewed FDIC's use of the GSA FSS process. We identified areas where we believed additional controls were needed. Accordingly, we recommended in our draft report that the Associate Director, ASB, institute the following controls over FDIC's use of the GSA FSS program:

(1) Place limits on the amount of work that may be subcontracted to firms who are not approved by GSA, and

(2) Place limits on the size of contracts that may be solicited using the FSS process.

CORPORATION RESPONSE AND OIG EVALUATION

On September 19, 1997, the Associate Director, ASB, provided the Corporation’s written response to a draft of this report. The response is presented as Appendix I to this report. ASB management agreed with the recommendation related to placing limits on the amount of work subcontracted to firms not approved by the GSA. ASB management disagreed with the recommendation to place limits on the size of contracts that may be solicited using the FSS process. However, ASB has agreed to take an alternative action to address our concerns. ASB’s response provided the requisites for a management decision on both recommendations.

Place limits on the amount of work that may be subcontracted to firms who are not approved by the General Services Administration (GSA). ASB management agreed with our recommendation. ASB is reviewing this issue to determine the most appropriate policy for limiting subcontracting under FSS awards and all other FDIC contracts. ASB is developing criteria to include a general benchmark of no more than 75 percent subcontracting activity for any contract. ASB management stated that the criteria will be expressed in policy which will be structured to control the amount of subcontracting based upon the unique nature of the contractual requirements and the proposed solutions presented by the offeror. ASB management anticipates the policy change will be instituted no later than October 31, 1997. ASB’s response adequately addressed the recommendation and provided all the requisites of a management decision.

Place limits on the size of contracts that may be solicited using the FSS process. ASB management disagreed with our recommendation. In its response, ASB management stated that placing limitations on the dollar amount of FSS awards would be contrary to the objective of the FSS program and Vice President Gore’s recommendations under the National Performance Review. ASB management stated that GSA uses competitive policies and procedures to award FSS contracts, and FDIC’s policies further require competitive proposals tailored to obtaining volume/price discounts. ASB’s response indicated that FDIC conducts limited technical evaluations for high dollar FSS awards.

Before receiving ASB’s official response, we met with ASB management to discuss our draft report. At this meeting, ASB management expressed concern that placing limits on the size of contracts under the FSS process would be contrary to the intent of this procurement initiative. We understood ASB’s concern and notified ASB management of our intent to modify this recommendation. We indicated that we believed technical evaluations of FSS contractors’ proposals are necessary and appropriate and should be required for the Corporation’s high dollar or complex services contracts. FDIC’s contracting policies currently provide for an optional technical evaluation for FSS awards greater than $100,000. While we did not suggest that $100,000 is the appropriate threshold for requiring a technical evaluation, we believed ASB should establish a reasonable threshold. Therefore, we recommended that ASB institute procedures requiring technical evaluations of FSS contractors being considered for high dollar or highly complex services contracts for FDIC.

A requirement for technical evaluations of offerors' proposals using the FSS process appears to be in concert with FDIC's procedures related to FSS contracts. Policy Memorandum No. 97-012 - Procedures for Using Federal Supply Schedules, dated August 13, 1997, provides that, for FSS awards greater than $100,000, the final award will be based upon a best value determination including price and/or delivery/technical requirements. ASB's *Acquisition Policy Manual,* Section 6.A.6.c. stipulates that evaluating best value involves determining the need (statement of work) and establishing an evaluation structure (evaluation criteria) for technical, price, and other factors that will identify the firm that offers the best value for the requirement. Although GSA's FSS contracting procedures for proposal evaluations call for technical evaluations when necessary,[1] such assessments, if made, would be related to the general requirements of the commonly used supply or service being solicited rather than the specific scope of work for an FDIC contract. As such, it would appear that GSA's technical evaluations in the FSS process would not be an appropriate substitute for the evaluations necessary in identifying the firm that offers the best value for the Corporation's specific requirements.

Subsequent to receiving ASB's official response, we discussed this matter with ASB management. In light of our revised recommendation, ASB management agreed to establish a mandatory requirement for technical review of proposals when procuring services from the GSA FSS Schedule. ASB management indicated that they are considering the "Maximum Order Threshold" under the respective FSS Schedule as the break point. This threshold represents the point at which it is advantageous for the Corporation to seek a price reduction from the FSS contractors submitting proposals for an FDIC contract. ASB management agreed to provide the OIG a copy of the proposed change to Policy Memorandum No. 97-012 by October 17, 1997. ASB's response adequately addressed the revised recommendation and provided the requisites of a management decision.

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[1]Federal Acquisition Regulation 15.608, Proposal evaluation, provides for (1) Cost or price evaluation, (2) Past performance evaluation, and (3) Technical evaluation, if any technical evaluation is necessary beyond ensuring that the proposal meets the minimum requirements in the solicitation.

APPENDIX I

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MANAGEMENT RESPONSES TO RECOMMENDATIONS

This table presents management responses that have been made on recommendations in our report and the status of management decisions. The information for management decisions is based on management's written response to our report and subsequent discussions with management representatives.

Rec. Number	Corrective Action: Taken or Planned/Status	Expected Completion Date	Documentation That Will Confirm Final Action	Monetary Benefits	Management Decision: Yes or No
1	ASB will develop criteria to include a general benchmark of no more than 75 percent subcontracting activity for any contract. Criteria will be expressed in policy which will be structured to control the amount of subcontracting based upon the unique nature of the contractual requirements and the proposed solutions presented by the offeror.	10/31/97	Acquisition Policy Memorandum incorporating criteria.	No	Yes

2	In response to the revised recommendation to require technical evaluations of FSS contractors being considered for high dollar or highly complex services contracts for FDIC, ASB will establish a mandatory requirement for technical review of proposals when procuring services from the GSA FSS Schedule. ASB management will consider the "Maximum Order Threshold" under the respective FSS Schedule as the determining point for mandatory technical evaluations of the offerors' proposals.	10/31/97	Acquisition Policy Memorandum incorporating the requirement for technical evaluations.	No	Yes